

**ASSEMBLY BILL**

**No. 111**

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**Introduced by Assembly Member Niello**  
**(Coauthors: Assembly Members DeVore and Jeffries)**  
(Coauthors: Senators Cox, Huff, and Runner)

January 13, 2009

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An act to amend Section 17144.5 of the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL'S DIGEST

AB 111, as introduced, Niello. Taxation: cancellation of indebtedness: mortgage debt forgiveness.

The Personal Income Tax Law conforms to specified provisions of the federal Mortgage Forgiveness Debt Relief Act of 2007, relating to the exclusion of the discharge of qualified principal residence indebtedness, as defined, from a taxpayer's income if that debt is discharged after January 1, 2007, and before January 1, 2009, as provided.

This bill would extend the operation of those provisions to debt that is discharged after January 1, 2007, and before January 1, 2012.

This bill would take effect immediately as a tax levy.

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

- 1 SECTION 1. Section 17144.5 of the Revenue and Taxation
- 2 Code is amended to read:

1 17144.5. (a) Section 108 of the Internal Revenue Code, relating  
2 to income from discharge of indebtedness, as amended by Section  
3 2 of the Mortgage Forgiveness Debt Relief Act of 2007 (Public  
4 Law 110-142), shall apply, except as otherwise provided.

5 (b) Section 108(a)(1)(E) of the Internal Revenue Code, as added  
6 by Section 2 of the Mortgage Forgiveness Debt Relief Act of 2007  
7 (Public Law 110-142), is modified by substituting the phrase  
8 “January 1, ~~2009~~ 2012” for “January 1, 2010” contained therein.

9 (c) Section 108(a)(1)(E) of the Internal Revenue Code, as added  
10 by Section 2 of the Mortgage Forgiveness Debt Relief Act of 2007  
11 (Public Law 110-142), is additionally modified to provide that the  
12 amount excluded from gross income shall not exceed \$250,000  
13 (\$125,000 in the case of a married individual filing a separate  
14 return).

15 (d) Section 108(h)(2) of the Internal Revenue Code, as added  
16 by Section 2 of the Mortgage Forgiveness Debt Relief Act of 2007  
17 (Public Law 110-142), is modified by substituting the phrase  
18 “(within the meaning of section 163(h)(3)(B), applied by  
19 substituting ‘\$800,000 (\$400,000’ for ‘\$1,000,000 (\$500,000’ in  
20 clause (ii) thereof)” for the phrase “(within the meaning of section  
21 163(h)(3)(B), applied by substituting ‘\$2,000,000 (\$1,000,000’  
22 for ‘\$1,000,000 (\$500,000’ in clause (ii) thereof)” contained  
23 therein.

24 (e) This section shall apply to discharges of indebtedness  
25 occurring on or after January 1, 2007, and, notwithstanding any  
26 other law to the contrary, no penalties or interest shall be due with  
27 respect to the discharge of qualified principal residence  
28 indebtedness during the 2007 taxable year regardless of whether  
29 or not the taxpayer reports the discharge on his or her return for  
30 the 2007 taxable year.

31 SEC. 2. This act provides for a tax levy within the meaning of  
32 Article IV of the Constitution and shall go into immediate effect.